

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1377-01  
Bill No.: HB 545  
Subject: Revenue Dept.; Taxation and Revenue - General; Taxation and Revenue - Income  
Type: Original  
Date: February 11, 2009

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Bill Summary: Would increase the amount for personal and dependency exemptions.

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>                   |                |                        |                        |
|---|----------------|------------------------|------------------------|
| <b>FUND AFFECTED</b>  | <b>FY 2010</b> | <b>FY 2011</b>         | <b>FY 2012</b>         |
| General Revenue   | \$0            | (\$156,800,000)        | (\$156,800,000)        |
|   |                |                        |                        |
| <b>Total Estimated<br/>Net Effect on<br/>General Revenue<br/>Fund</b> | <b>\$0</b>     | <b>(\$156,800,000)</b> | <b>(\$156,800,000)</b> |

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>                      |                |                |                |
|---|----------------|----------------|----------------|
| <b>FUND AFFECTED</b>  | <b>FY 2010</b> | <b>FY 2011</b> | <b>FY 2012</b> |
|   |                |                |                |
|   |                |                |                |
| <b>Total Estimated<br/>Net Effect on <u>Other</u><br/>State Funds</b> | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                          |            |            |            |
|---|------------|------------|------------|
| FUND AFFECTED   | FY 2010    | FY 2011    | FY 2012    |
|   |            |            |            |
|   |            |            |            |
| <b>Total Estimated<br/>Net Effect on <u>All</u><br/>Federal Funds</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

| <b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b> |          |          |          |
|---|----------|----------|----------|
| FUND AFFECTED   | FY 2010  | FY 2011  | FY 2012  |
|   |          |          |          |
|   |          |          |          |
| <b>Total Estimated<br/>Net Effect on<br/>FTE</b>          | <b>0</b> | <b>0</b> | <b>0</b> |

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| <b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b> |            |            |            |
|--|------------|------------|------------|
| FUND AFFECTED                              | FY 2010    | FY 2011    | FY 2012    |
| <b>Local Government</b>                    | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

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## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from the **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization.

BAP officials stated that this proposal would increase the personal taxpayer exemption from \$2,100 to \$2,625 for all taxable years after January 1, 2010. According to the 2009 Tax Expenditure Report published by the State and Regional Fiscal Studies Unit at the University of Missouri, Columbia, a total of \$396.8 million in personal exemptions are forecast for 2010. This proposal would increase the total taxpayer exemptions by \$99.2 million.  $(\$396.8 \text{ million} * (\$2,625 \div \$2,100) = \$496.0 \text{ million})$ .  $(\$496.0 \text{ million} - \$396.8 \text{ million}) = \$99.2 \text{ million}$ .

In addition, BAP officials stated that this proposal would increase the personal dependency exemption from \$1,200 to \$2,100 for all taxable years after January 1, 2010. According to the 2009 Tax Expenditure Report published by the State and Regional Fiscal Studies Unit at the University of Missouri, Columbia, a total of \$101.4 million in personal dependency exemptions are forecast for 2010. This proposal would increase the total taxpayer exemptions by \$76.0 million.  $(\$101.4 \text{ million} * (\$2,100 \div \$1,200)) = \$177.4 \text{ million}$ .  $(\$177.4 \text{ million} - \$101.4 \text{ million}) = \$76.0 \text{ million}$ .

This proposal could therefore reduce general and total state revenues by  $(\$99.2 \text{ million} + 76.0 \text{ million}) = \$175.2 \text{ million}$ .

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would not have a fiscal impact on their organization; however, they provided this estimate of the IT cost to implement the proposal.

Officials from **the Office of Administration, Information Technology Services Division** (ITSD/DOR) estimate that this proposal could be implemented using one FTE existing CIT III for two months for system modifications to the MINITS system at a total cost of \$8,882. ITSD/DOR officials assume this proposal could be implemented with existing resources; however, if priorities shift, additional FTE/overtime could be required.

Officials from the **University of Missouri, Economic and Policy Analysis Research Center** (EPARC) assume this proposal would increase the amounts for personal and dependency exemptions. Specifically, it would increase the deduction for the resident and the resident's spouse from \$2,100 to \$2,625 and would increase the deduction for each dependent from \$1,200 to \$2,100.

This proposal would thereby increase the exemption amounts for each filing status. The Single filing status exemption would increase from \$2,100 to \$2,625, the Married Filing Jointly status exemption would increase from \$4,200 to \$5,250, the Married Filing Separate status exemption would increase from \$2,100 to \$2,625, the Married filing Separate (spouse not filing) status exemption would increase from \$4,200 to \$5,250, the Head of Household status exemption would increase from \$3,500 to \$4,025, and the Qualifying Widow(er) with dependent child status exemption would increase from \$3,500 to \$4,025. The Dependent exemption deduction would increase from \$1,200 to \$2,100.

The EPARC estimate indicated that Net Tax Due would be reduced from the 2007 baseline amount of \$4,734.9 million to \$4,578.1 million. In other words, Missouri would realize a reduction in Net General Revenue equal to \$156.8 million.

Oversight will use the EPARC estimate of revenue reduction for this proposal, and Oversight notes that this proposal would be effective for all tax years beginning on or after January 1, 2010. The first returns including the increased exemptions would be filed in January 2011.

| <u>FISCAL IMPACT - State Government</u>                                    | FY 2010<br>(10 Mo.)     | FY 2011                       | FY 2012                       |
|--|-------------------------|-------------------------------|-------------------------------|
| <b>GENERAL REVENUE</b>   |                         |                               |                               |
| <u>Revenue reduction</u> - increased personal<br>and dependency exemptions | <u>\$0</u>              | <u>(\$156,800,000)</u>        | <u>(\$156,800,000)</u>        |
| <b>ESTIMATED NET EFFECT ON<br/>GENERAL REVENUE FUND</b>                    | <b><u>\$0</u></b>       | <b><u>(\$156,800,000)</u></b> | <b><u>(\$156,800,000)</u></b> |
| <br><u>FISCAL IMPACT - Local Government</u>                                | <br>FY 2010<br>(10 Mo.) | <br>FY 2011                   | <br>FY 2012                   |
|  | <b><u>\$0</u></b>       | <b><u>\$0</u></b>             | <b><u>\$0</u></b>             |

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

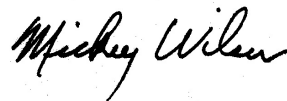
FISCAL DESCRIPTION

This proposal would increase the amount for personal and dependency exemptions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of state  
Office of Administration  
    Division of Budget and Planning  
Department of Revenue  
University of Missouri  
    Economic and Policy Analysis Research Center

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
February 11, 2009